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Intra-ASEAN Economic Cooperation and Monetary and Financial Cooperation

—Towards Monetary and Financial Cooperation in East Asia—

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In East Asia, a stable monetary system has not been established yet. East Asian countries are very vulnerable to a sudden currency crisis or an economic crisis. Therefore a stable monetary system in East Asia has to be examined. The Asian economic crisis damaged all the Association of Southeast Asian Nations (ASEAN) countries, where the crisis initially began. What kind of monetary and financial cooperation will be possible for ASEAN, to prevent a similar crisis in the future? Is it possible to adopt a single currency as in the EU? Will it be effective? What kind of monetary and financial cooperation is possible if this is done? In this paper, the possibilities of monetary and financial cooperation in ASEAN, as a first step towards monetary and financial cooperation in East Asia, will be examined.

1. Introduction

East Asian countries including Southeast Asian countries sustained enormous damage by the Asian economic crisis that began in Thailand with its currency crisis in1997. In East Asia, a stable monetary system, as with the Euro in European Union (EU) or the US dollar in North America Free Trade Agreement (NAFTA), has not been established yet. Thus, East Asian countries are very vulnerable to a sudden currency attack or an economic attack. While they have been increasingly interdependent on each other in terms of trade and investment and their economies have been rapidly growing, their monetary system that is an important infrastructure for international transactions is extremely weak. Therefore a stable monetary system in East Asia has to be considered.

The Asian economic crisis damaged all the Association of Southeast Asian Nations (ASEAN) countries, where the crisis initially began. What kind of monetary and financial cooperation will be possible for ASEAN, to prevent a similar currency and economic crisis in the future? Is it possible to adopt a single currency as in the EU? Will it be effective? What kind of monetary and financial cooperation is possible if this is done it? These issues have to be examined.

Currently, a new monetary and financial cooperation "the Chiang Mai Initiative" is gradually emerging as an extension of ASEAN monetary and financial cooperation. "The Chiang Mai Initiative" has many possibilities for a monetary and financial cooperation not only for ASEAN countries but also for East Asian countries.

In this paper, the possibilities of monetary and financial cooperation in ASEAN, as a first step towards monetary and financial cooperation in East Asia, will be examined.

2. Intra-ASEAN Economic Cooperation: Past Experiences and Characteristics

2.1 Past Experiences

ASEAN was founded in 1967. Adding to initial political cooperation, ASEAN began intra-ASEAN economic cooperation at the 1st ASEAN Summit in 1976. This economic cooperation, based upon a report formulated by a United Nations Team ("Economic Cooperation among Member Countries of the Association of Southeast Asian Nations"), was carried out according to "ASEAN's strategy for Collective Import Substituting Industrialization for Heavy and Chemical Industries (ASEAN's strategy for CISI)." This strategy was designed under the restricted foreign direct investment (FDI), and conducted by the collective self-reliance policies. However, this strategy suffered a setback due to failure in the implementation of the following three policies: the ASEAN Industrial Projects (AIP), the ASEAN Industrial Complementation (AIC) and the Preferential Trading Arrangement (PTA) (furthermore, the ASEAN Industrial Joint Venture: AIJV also started in 1983), and due to the failure in the creation of an interdependent market within ASEAN. What mainly caused these failures was the conflicts of economic interest among the ASEAN countries, and their inability to overcome them.[1)]

At the 3rd ASEAN Summit in 1987, this Strategy (ASEAN's strategy for CISI) was switched to a new strategy "ASEAN's strategy for Collective FDI-dependent and Export-oriented Industrialization (ASEAN's strategy for CFEI)." This was because the former strategy ended in failure and there were some changes in economic conditions both inside and outside the ASEAN region. Some changes were notable changes in the bases of intra-regional coop-

1) Shimizu, K. (1993), "The Strategy and Its Results of Intra-ASEAN Economic Cooperation, 1976-1987," *Monthly Journal of Institute of Developing Economies* (*IDE*), Vol. 34, No. 8, (in Japanese), Shimizu, K. (1998a), *Political Economy of Intra-ASEAN Economic Cooperation*, Mineruva Shobo, Kyoto, (in Japanese), Chap. 1-3, Shimizu, K. (1998b), "Intra-ASEAN Economic Cooperation, 1976-1987—Setbacks and Changes in ASEAN's Strategy for Collective Import Substituting Industrialization for Heavy and Chemical Industries—," *Economic Journal of Hokkaido University* (*Hokkaido University*), Vol. 27, 1998.

eration, which were the formation of interdependent market within the ASEAN region by Multinational Corporations (MNCs) and the switch of foreign capital policies of each ASEAN country from FDI-regulated ones to FDI-attractive ones. At the heart of this strategy was the Brand-to-Brand Complementation Scheme (the BBC Scheme). However, it was questionable as to whether the "ASEAN's strategy for CFEI" completely succeeded. This was because the initial programs (PTA and AIJV) other than the BBC Scheme failed to produce the expected results due to the inability to overcome the conflicts of economic interest among member countries, and the main field of the success was the import substituting industry, namely the automotive industry. Furthermore, there was a problem that MNCs expanded their parts complementing areas, in pursuit of efficient and rational production, thus extending beyond the ASEAN region.[2)]

Although intra-ASEAN economic cooperation was an extension of ASEAN's strategy for CFEI, it reached a significant turning point and new phase, along with historical structural changes in the political and economic framework surrounding ASEAN, starting in 1991. These changes can be summarized into the following points. First, there were the changes in the cold war framework in Asia. Second, there had been economic changes in ASEAN countries. For example, ASEAN countries achieved rapid economic growth and turned themselves into investing countries and financial centers in the Asia Pacific region. Third, China achieved the rapid economic growth and growing FDI based on "Reforms and Open Policy."

These changes promoted the deepening and the widening of intra-regional cooperation. In other words, AFTA[3)], AICO[4)] and AIA[5)] have been promoted as an extension of ASEAN's strategy for CFEI, and the widening of ASEAN to include Indochina countries have been promoted.[6)]

However, Intra-ASEAN economic cooperation was reoriented during the

2) Refer to Shimizu, K. (1998a), Chap. 5, Shimizu, K. (1999b), "The Proposal and Implementation of the Brand to Brand Complementation Scheme—Intra-ASEAN Economic Cooperation, 1987-1995 ; An Analysis about Relations between Foreign Direct Investment, Multinationals and Intra-Economic Cooperation—," *Economic Journal of Hokkaido University* (*Hokkaido University*), Vol. 28, 1999 and Shimizu, K. (1994), "Intra-ASEAN Economic Cooperation and BBC Scheme," *Sekaikeizai Hyoron*, Sekaikeizai Kenkyu Kyokai, Vol. 38, No. 12, Vol. 39, No. 1 (in Japanese).

3) AFTA is the free trade area concept agreed upon at the 4th ASEAN Summit in January 1992. By the Common Effective Preferential Tariff (CEPT) to establish AFTA, tariffs for industrial products and processed agricultural products in the ASEAN region should be reduced by 0 - 5 % by 2008. At the 6th ASEAN Economic Ministers Meeting, the implementation of tariff reduction would be moved up by 5 years to the year 2003 was adopted, and this would be applied to non-processed agricultural products. At the 6th ASEAN Summit in December 1998, this implementation was moved up by another one year to the year 2002. Refer to Shimizu, K. (1998a), Final Chap.

4) The BBC Scheme was integrated into the AICO Scheme, which was agreed upon at the informal ASEAN

Asian economic crisis and called into question its raison d'être. Under intense pressures and with a centrifugal force, ASEAN is about to deepen intra-ASEAN economic cooperation by implementing AFTA ahead of schedule and by reforming the AICO scheme system, etc. [7]

2.2 Characteristics and Centrifugal Force of Intra-ASEAN Economic Cooperation

In this section, I will provide a listing of several characteristics of Intra-ASEAN Economic Cooperation in a more global perspective. [8]

The characteristics of ASEAN as a regional cooperation organization are as follows. For security, ASEAN has been depending on the security system in the entire Asia-Pacific region, primarily arranged by the U.S.A. On the economic and political sides, ASEAN has eased some tension within the ASEAN region through consensus building, and ASEAN has obtained economic assistance from advanced countries and secured export markets by External Joint Approaches.

ASEAN includes many tense relations and centrifugal forces as it proceeds in its intra-regional cooperation. In terms of ASEAN regional cooperation, conflicts of economic interest are likely to come into being among member countries, and if so, it is not easy to solve them. Also, ASEAN's momentum to integrate its intra-regional market is fundamentally weak.

Let us examine the characteristics in detail. The following is some exact characteristics of intra-ASEAN economic cooperation regarding the theme of this paper, especially in comparison to the European Community (EC) and EU.

First, as observed in the External Joint Approaches, the role of ASEAN as a bargaining organization with the external world has been an important focus of its cooperation. By taking advantage of this role, ASEAN has obtained economic assistance from advanced countries such as Japan, and secured ex-

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Economic Ministers Meeting in April 1996 and came into effect in November 1996 in each ASEAN country. The approved AICO products shall enjoy a preferential tariff rate of 0 - 5 % and a local content accreditation. Refer to Shimizu, K. (1998a), Final Chapter and Shimizu, K. (1997), "From the BBC Scheme to the AICO Scheme," Institute for International Trade and Investment (1997), *The Research on the Formation of a Regional Economic Cooperation and Changes in Foreign Direct Investment*, Institute for International Trade and Investment.

5) The AIA was agreed at the 5th ASEAN Summit in December 1995. "The Framework Agreement on the AIA" was signed at the ASEAN Economic Ministers Meeting in October 1998.

6) ASEAN consists of 10 countries: Indonesia, Malaysia, the Philippines, Singapore, Thailand, (the original five member countries since 1967), Brunei Darussalam (since 1984), Vietnam (since 1995), Laos, Myanmar (since 1997), and Cambodia (since 1999).

7) Refer to Shimizu, K. (2000), "The Asian Economic Crisis and Intra-ASEAN Economic Cooperation," *Economic Journal of Hokkaido University* (*Hokkaido University*), Vol. 29.

8) Refer to Ibid., 4th section for details.

port markets.

Second, as seen in the ratios of export and import, the interdependence in the ASEAN market has been low, while the dependence of trade and investment on major powers outside ASEAN has been high. The export ratio in the ASEAN region was less than 25% even in the 1990s, and the ratios of export to countries outside ASEAN, including the U.S.A. and Japan, were generally large.

Third, the Asia-Pacific Triangle framework and the shaping of interdependence by MNCs have been the basis for economic cooperation. The Asia-Pacific Triangle framework has consisted of the following flows: the export of machine and parts to Asian NIES and ASEAN countries from Japan, and the export of products to the U.S.A. from Asian NIES and ASEAN countries. Furthermore, the participation of other countries, China and Indochina countries, in this triangle, has shaped the extended reproduction of this structure. Furthermore, behind the triangle, there has been the international division of labor based on FDI by Japanese and U.S.A. MNCs. This international division of labor has also been a strong basis.

Fourth, an important aim of ASEAN cooperation has not been to achieve integration based on the transfer of sovereignty by supranational organizations, but to achieve the shaping and fostering of nation-states for individual ASEAN country.

Fifth, there have been numerous intra-regional political and economic tensions (e.g. territorial disputes and conflicts of economic interest among ASEAN countries). In 1976, when selecting industries for AIP to each country, many conflicts among member countries resulted due to their attempts to introduce their own strategic industries (for example, petrochemical industry or diesel engine industry). But, in this case, intra-regional conflicts were avoided by obtaining funds from an outside power (Japan). In 1977, Japan offered economic aid for AIP. Then ASEAN's External Joint Approaches had an important role.

Sixth, ASEAN does not have policies or organizations to solve conflicts between member countries. For example, ASEAN has not had common policies: "methods for the redistribution of income or the reallocation of capital" for countries suffering disadvantages arising from economic cooperation (e.g. common policies, such as Common Agricultural Policy: CAP or Common Regional Policy in EC or EU). Also, ASEAN has not had any organization to supervise "methods for the redistribution of income or the reallocation of capital" for total ASEAN profits (e.g. organizations such as Commission and European Court of Justice in Europe).[9]

3. Monetary and Financial Cooperation in ASEAN

3.1 Previous Monetary Cooperation

Compared to trade cooperation (PTA and AFTA) and industrial cooperation (AIP, AIC, AIJV, BBC and AICO), ASEAN monetary cooperation has hardly been implemented.

The only previous cooperation worthy of note was the ASEAN Swap Arrangements signed in 1977. "Memorandum of the ASEAN Swap Arrangements" was signed in August 1977 and the arrangement has since been supplemented. The purpose of the Arrangement shall be to provide immediate short-term swap facilities to participating ASEAN member countries with temporary international liquidity problems. Under the Arrangement U.S. dollars shall be exchanged against the domestic currency of a requesting participant.[10] However, due to lack of funds the agreement has hardly been used.

Since the Asian Economic Crisis in 1997, a few proposals have recently been presented. One example is "the ASEAN Surveillance Process (ASP)." A framework for closer consultations of ASP was agreed at a special meeting on 4 October 1998 by ASEAN finance ministers. Its purpose was to monitor global as well as regional and national economic and financial developments and to supervise their economic policies themselves based on peer review. This process could be a basis for monetary and financial cooperation. This move was a result of "the Manila Framework," at the Meeting of Asian Finance and Central Bank Deputies, in Manila, in November 1997. Afterwards, at the 6th ASEAN Summit in December 1998, implementation of the ASEAN Surveillance Process was also approved. Currently, the system is being built.

The wider use of ASEAN currencies in intra-ASEAN trade settlements has been proposed. This was suggested by Prime Minister Mahathir of Malaysia in February 1998, during a conference with Prime Minister Chuan of Thailand. Later in the same month, its specifics were discussed at the ASEAN Finance Ministers Meeting. At the 6th ASEAN Summit in December 1998, they announced a discussion on the adoption of an ASEAN currency and ASEAN exchange system.

3.2 Is EU-Like Monetary Integration Effective or Possible for ASEAN? What Are the Conditions for Monetary Integration?

When considering monetary cooperation and integration, the single currency of the EU comes to mind. Is it really possible to have a single currency

9) Refer to Shimizu, K. (1998a), Chap. 2.

10) "Memorandum of the ASEAN Swap Arrangements," Kuala Lumpur, 5 August 1977.

for ASEAN? Would it be effective and beneficial for ASEAN? Let us explore those questions and conditions for the integration.

3.2.1 Comparisons of the Conditions for Integration: ASEAN and EU

When comparing ASEAN and EU, it is important to understand that conditions for integration are fundamentally different.

First, the EC and EU previously had mutual interdependency in its intra-markets. In other words, the market integration of the EC was a revival of European markets, which were formerly united.

Second, among the EC and EU countries, there existed strong similarities in economic policy and economic standards.

Third, EC and EU had common policies: "methods for the redistribution of income or the reallocation of capital" and had an organization to supervise these policies.

Fourth, due to the lesson that nationalism generated conflicts and subsequent wars, there was a movement to limit the sovereignty of each nation-state.

Fifth, there was a nucleus such as the Bonn-Paris axis.

Sixth, there was centripetal force towards integration. Politically it was against the Soviets; economically, it was against the U.S.A. and Japan.

However, ASEAN lacks the all above conditions for integration.

3.2.2 A Further Comparison of the Conditions for Monetary Integration : ASEAN and EU

The following are further divergent conditions, particularly regarding the EU monetary integration :

First, when monetary integration was initially discussed, there was strong political will and support for monetary integration in the EU. One example was the presence of the EC Commission, which had strong political will for monetary integration. The "Cecchini Report" also supported the propaganda that the integration will invite further growth. So did the subsequent "Euro-phoria."

Second, implementation of monetary integration was already urged by the request of the former EC policies. Previous integration policies including "methods for the redistribution of income or the reallocation of capital," such as the CAP and Regional Policies depended on the European Monetary System (EMS) fixed exchange rate system. Therefore, what was left to do after the liberalization of capital movements was establishing a single currency (or a floating exchange rate system). In other words, when they disbursed from the EC fund, if the exchange rate fluctuated, there were differences in distributions.

That is why the EU had to establish a common price.

Third, their degree of interdependency (the rate of intra-regional transactions) in the region was high. The majority of their trade was intra-regional.

Fourth, there were pressures to reduce the exchange risk from the free markets in terms of goods and services and capital and labor.

Fifth, sufficient profits were expected, enough to be considered worth the burden of abandoning each country's monetary policy autonomy and adopting the single monetary policy.

Sixth, they had the Bundesbank, which was an overwhelming power towards monetary integration among central banks of all member countries. In other words, the EU had a nucleus for monetary integration. The European Central Bank (ECB) is an extension or Europeanization of the Bundesbank.

However, ASEAN differs from the above in the following points. First, there appeared to be no strong will for monetary integration.

Second, there is no urgent request for monetary integration from previous ASEAN systems.

Third, the intra-regional trade ratio of ASEAN is low. The export ratio in ASEAN is less than 25%. If Singapore is excluded as a trading partner, the ratio is reduced to 5 %. Meanwhile, the trade ratio with external countries (Japan and the U.S.A.) is high, thus lessening the necessity for intra-ASEAN monetary integration. In other words, the currency system with the US dollar or Japanese yen as their main currency is more efficient and rational for traders.

Fourth, they have not yet to establish the free market of goods and services and capital, a premise of monetary integration. AFTA also is not yet fully established.

Fifth, it is unlikely that the member countries would be willing to lose discretionary power over their financial and fiscal policies. In the ASEAN region, where the degree of development and the economic conditions greatly vary, losing the power of discretion will be a disadvantage to each country's economy. Furthermore, losing freedom in monetary and fiscal policies will contribute to a collapse of possible macro-economic cooperation (for example, a simultaneous adoption of an economic expansion policy in one country and an economic tightening policy in another).

Sixth, there is no country to act as a nucleus to implement monetary integration. Singapore is unlikely to become the nucleus. Even if Singapore were to become one, the other ASEAN countries would certainly not approve of it.

In addition to the above points, unless there is a system to resolve conflicts of interest, even to draw up exchange rates will very likely cause a clash

among member countries.

3.2.3 Summary

To conclude, the conditions of integration for ASEAN and the EU were fundamentally different, and therefore, ASEAN lacks the conditions for monetary integration that the EU was able to meet. For this reason, it is ineffective, indeed almost impossible, for ASEAN to implement monetary integration and introduce a single currency as was done by the EU. The ASEAN countries are still strongly connected to external markets, and have adopted FDI dependent and Export-oriented strategy. In fact, rather than adopting monetary integration, it is more advantageous for them to have a degree of flexibility in implementing economic policies including monetary and financial policies. Monetary integration should be studied after deepening market integration by the development of AFTA, and should be considered in terms of their relationship with external markets.

What is necessary is not hasty monetary integration, but devising possible preventive measures for currency and economic crisis and then adopting them swiftly.

In regard to implementing intra-ASEAN economic policies, it will be important to introduce measures to prevent conflicts among the member countries. For instance, a common policies: "methods for the redistribution of income or the reallocation of capital" and an organization to supervise these policies must be introduced, and the secretariat's power to implement it must be strengthened.

3.3 What Monetary and Financial Cooperation is required to prevent Currency Crisis in ASEAN?

Let us examine what kinds of monetary cooperation are necessary to prevent currency crisis.

So long as FDI and export are the trump cards for growth for ASEAN countries, it is very likely that another currency crisis will occur. What can be done to prevent it? What kind of monetary cooperation can be done, without implementing monetary integration, to prevent such a currency crisis?

The first thing to consider is the causal factors of the Asian economic crisis?

The following is a short summary of the events of the crisis: The basis of the crisis was rapid expansion of capital flows, especially the rapid growth on foreign indirect investments and short-term investments in the world economy (especially in the Asia-Pacific region). Next came the sudden policy of capital liberalization in ASEAN countries, followed by a quick inflow of foreign

indirect investments and short-term investments. The capital was invested into nonproductive sectors and the bubble grew and grew, setting the stage for an economic crisis. Meanwhile, due to the "dollar peg" of each currency, an overvaluation of exchange rate against Yen and Yuan occurred, which led to a decline in competitiveness of export products from the ASEAN countries.

As a result, the current accounts deficit grew, setting the stage for the crisis. The capital inflow suddenly turned around and became a rapid outflow of short-term investments, triggering a currency crisis and eventually a widespread economic crisis. The other causal factors included lack of transparency of short-term debts and bad loans (the real conditions were not revealed).

Adding to the above was the fact that financial and banking systems of the ASEAN countries were fragile and that there was no system in East Asia to stabilize their currencies.

Now, with all the above factors in mind, what must first be done is to expand the transparency about economic conditions (including bad loans) and economic policies. At the same time, the surveillance mechanism, which is an extension of the ASEAN Surveillance Process, should be strengthened.

Second, establishment for intra-regional capital markets must be made.

Third, new funds must be established to play various roles in economic measures, in order to, 1) finance for the short-term current account deficit 2) set up a fund for foreign exchange intervention 3) set up a fund for economic recovery. However, it will be more efficient that those funds should be applied to all East Asian countries. In this case, not only ASEAN countries but also Japan must invest money.

In some cases, it may be necessary to exercise a short-term restriction on capital movements. Balance and consistency in the policies of the individual member countries and ASEAN's own policies should always be considered.

What is necessary for ASEAN to do is not hasty monetary integration, but to devise possible preventive measures in case of a currency crisis and to adopt them swiftly. Currently, the ASEAN countries are strongly connected in trade and investment to external ASEAN countries such as Japan. Therefore, it will be more efficient to implement monetary cooperation in a larger region than ASEAN, at least East Asia.

4. A New Development in Monetary and Financial Cooperation -The Chiang Mai Initiative: Expanding the ASEAN Swap Arrangements

4.1 The Chiang Mai Initiatives: Expanding the ASEAN Swap Arrangements

There is a new development emerging in ASEAN monetary cooperation. It

is called the "Chiang Mai Initiative." The Chiang Mai Initiative was agreed at the ASEAN+ 3 Finance Ministers (from Japan, China and South Korea) Meeting in Chiang Mai, in May 2000. The Chiang Mai Initiative was an extension of the ASEAN Swap Arrangements signed in 1977. Yet, it was a new development in monetary and financial cooperation not only for ASEAN but also for the East Asian region.[11]

By the Chiang Mai Initiative, the member countries of the ASEAN Swap Arrangements rose to 10 countries from the original 5 countries, simultaneously adding Japan, China and South Korea to the network. This purpose shall be to provide immediate short-term swap facilities to participating member countries with temporary international liquidity problems. Under the Arrangements US dollars shall be exchanged against the domestic currency of a requesting participant. This objective is to help prevent or lessen a potential monetary crisis in the case of an emergency, before IMF support is finalized.

The Chiang Mai Initiative, unlike the Asian Monetary Fund (AMF) is a network system of bilateral agreements between two countries. Japan's initiative of the AMF proposed immediately after the Asian economic crisis in1997, failed because of objections from the U. S. A., the IMF and China. But the Chiang Mai Initiative succeeded because this time the U.S.A. decided to support it. It was also successfully approved after these Swap Arrangements was positioned as complementary to the IMF, and when China, which had been opposed to the AMF, changed its stance.

The Chiang Mai Initiative was the embodiment of the regional monetary and financial support mechanism that Japan and ASEAN have been looking for since the Asian economic crisis. It was the result of two matching goals to ensure a safety net for ASEAN in case of an currency crisis, which matched the Japanese goal. From the view point of Japan, it was a part of the New Miyazawa Initiative, an extension of the two bilateral Swap Arrangements between Japan and Malaysia and between Japan and South Korea.[12]

4.2 Two Key Points Regarding the Chiang Mai Initiative

There are two important key points regarding the Chiang Mai Initiative. The first key point is the retaining the characteristic of Intra-ASEAN Economic Cooperation. Even with this new monetary and financial cooperation: the Chiang Mai Initiative, one can see the same distinct character. Also seen

11) Refer to "The Joint Ministerial Statement of the ASEAN+ 3 Finance Ministers Meeting," 6 May 2000, Chiang Mai, Thailand, and *Nippon Keizai Shinbun*, 7, 9, 10 May, 2000.

12) Under the New Miyazawa Initiative, Japan set the financing program of $ 5 billion for a swap arrangement with South Korea and $ 2. 5 billion for a swap arrangement with Malaysia.

with AIP, the characteristic remains intact: internal dilemmas (intra-regional conflicts) are resolved by an external force (foreign capital). ASEAN was once again successful in ensuring a safety net by obtaining its funds from outside the region. To do that, they utilized their External Joint Approaches (collective negotiating ability) to the fullest. The successful negotiation for the Chiang Mai Initiative would most likely not have been possible without ASEAN.

The second key point is the development of the monetary and financial cooperation in East Asia. There has been the possibility of monetary and financial cooperation by the ASEAN+ 3 Framework (including Japan, China and South Korea). There has also been the possibility of other extensive cooperation by the ASEAN+ 3 Framework. The significant fact is that without the U. S.A. being directly involved, a cooperation system in the areas of money and finance has been built. Furthermore, China, which used to be very reluctant to be involved in an international framework, has been participating in this ASEAN+ 3 Framework. The Chiang Mai Initiative promises to be a groundbreaking measure of monetary and financial cooperation in East Asia (ASEAN + Japan, China and South Korea).

Cooperation through the ASEAN+ 3 Framework for East Asian Cooperation has been gradually implemented since 1999. The ASEAN+ 3 Leaders Meeting was held for the first time, issuing the first Joint Statement on East Asian Cooperation in Manila in November, 1999. There have been few adequate discussions and frameworks for security and economic issues in East Asia. But now East Asian countries have gradually become aware of the high degree of interdependence in East Asia and the importance of intra-regional cooperation.

Furthermore, we are beginning to see more discussions on bilateral economic cooperation between Japan and South Korea and between Japan and Singapore. At the ASEAN Meeting with Foreign Ministers of Japan, China and South Korea in Bangkok in July 2000, they agreed to have a discussion on Free Trade Area including ASEAN, Japan, China and South Korea: the expansion of AFTA.

The Chiang Mai Initiative is positioned as an extension of the East Asia framework. It is a test case on whether monetary and financial cooperation and further extensive cooperation in East Asia can be implemented. In other words, whether the initiative will be able to help build a new order in East Asia.

5. Conclusion

In the past, ASEAN monetary cooperation has hardly been implemented. The EU-style monetary integration is neither effective nor possible for ASEAN.

What is necessary for ASEAN to do is not hasty monetary integration, but to devise possible preventive measures in case of a currency crisis and then adopt them swiftly. Since currently the ASEAN member countries are strongly connected to external ASEAN countries such as Japan and U. S. A., it will be more efficient to implement monetary cooperation in a wider region, at least the East Asia region.

There is a new development emerging in ASEAN monetary cooperation. It is called the "Chiang Mai Initiative." Both as ASEAN cooperation and East Asian cooperation, the Chiang Mai Initiative deserves much attention. Even with this new initiative, the stubborn characteristics of intra-ASEAN economic cooperation remain intact.

The framework of monetary and financial cooperation is difficult to implement for ASEAN. At a minimum it will require a currency stabilized system in East Asia. The Chiang Mai Initiative is worthy as a first step towards monetary and financial cooperation in East Asia. Monetary systems in East Asia are highly vulnerable. It is better to start with the construction of several safety nets in preparation for crises, rather than attempting to implement rigid monetary integration. However, when doing that, it is very important to focus on either East Asia (ASEAN, Japan, China, and South Korea), or the Asia-Pacific (including the U. S. A.). Also, the focus should be on whether cooperation in the direction of the Chiang Mai Initiative will develop further. The initiative is a test case to determine whether more extensive cooperation can be realized, in other words, whether a new order can be built in East Asia.

The implementation of cooperation of the East Asian framework will depend on the direction of the economic interdependency in terms of trade and investment structure in East Asia, along with the political structure in both the East Asia and Asia-Pacific regions. Further study on the direction of interdependency is necessary.

For ASEAN, the implementation of AFTA, not monetary integration, should be the number one priority. The future of intra-ASEAN economic cooperation depends on whether AFTA can be established by the year 2002. But in Malaysia, the tariff reduction on cars was postponed until 2005, conspicuously indicating that each country is trying to protect its own industries. Still, the realization of AFTA is indispensable for ASEAN.

ASEAN countries are increasingly losing some conditions that formerly often supported these country's developments. China has emerged as a rival and increased its power. FDI in ASEAN countries has been sluggish and these export markets have been tightening. This trend accelerated towards the end of the1990s, and is currently expected to pick up even greater speed because of the information technology (IT) revolution. On the other hand, as stated in Sec-

tion2, there are a number of centrifugal forces for intra-ASEAN economic cooperation. Each country's position towards intra-regional economic cooperation can also vary. For instance, Singapore, having embraced the benefits of IT, looks more to the U. S. A. or Japan than to ASEAN. As they expand their monetary and financial cooperation beyond the framework of the ASEAN region, it is possible that ASEAN will be attracted to wider frameworks, especially considering the efficient actions of MNCs in those areas. Also, political situations, such as ones in Indonesia, Thailand and the Philippines, could greatly affect the direction of intra-ASEAN economic cooperation.

Given the stagnant state of intra-ASEAN economic cooperation, including AFTA, even regional cooperation itself might be called into question. ASEAN's ability to negotiate externally may also be weakened. In addition, since it was founded in1967, its major role of acting as a counterweight to Indochina has already diminished. Currently, the strategy of taking the initiative by utilizing the tense relationship between the superpowers as adopted in Post Ministerial Meetings or ASEAN Regional Forum (ARF) has come to an end. In a political sense, ASEAN's raison d'être has declined. Thus, intra-ASEAN economic cooperation is the very important key for ASEAN.

It is my intention to further examine intra-ASEAN economic cooperation and monetary and financial cooperation, as well as monetary and financial cooperation and more extensive cooperation in East Asia.

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Notes

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